

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	1
LOCAL OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS	
BATTLE CREEK OFFICE	
Cash Disbursements	
Stamping Documents “PAID”	2
Cash Receipts	2
General Ledger	
Bank Reconciliation	2-3
Approval of Journal Vouchers	3
Modified Accrual Basis Balance Sheet	
County Equity Balance	3
State Emergency Relief	
FIA-93 Reconciliation	4
Safe and Controlled Documents	4
Employment Support Services	4
Client Processing	4
CIS/ASSIST	
MA-010 Reconciliation	4
Security Officer Log Report (PD-180)	5

IRS Information Security	5
Payroll and Timekeeping	
Payroll Record Retention	5
Procurement Card	5
ALBION OFFICE	
Cash Receipts	
Mail Opening	6
Safe and Controlled Documents	6
Employment Support Services	6
Client Processing	6
CIS/ASSIST	
CIMS Security Agreements	6
IRS Information Security	7

INTRODUCTION

The Office of Internal Audit performed an audit of Calhoun County FIA for the period January 1, 2002 through November 30, 2002. The objectives of our audit were to determine if internal controls in place at the local offices provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Calhoun County FIA had 132 full time equated positions (FTE's) at the time of our review. Calhoun County FIA provided assistance to an average 11,035 recipients per month in FY 2001, with total assistance payments of \$15,037,018 for the fiscal year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Calhoun County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Modified Accrual Basis Balance Sheet
Safe and Controlled Documents	State Emergency Relief (SER)
Employment Support Services	Client Processing
CIS/ASSIST	IRS Information Security
Payroll and Timekeeping	Procurement Card

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Calhoun County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did however, find instances of noncompliance with FIA policies and procedures, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Calhoun County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum received on March 5, 2002, that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS

The following are areas where we found that Calhoun County FIA had a control weakness or was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

BATTLE CREEK OFFICE

Cash Disbursements

Stamping Documents "PAID"

1. Calhoun County FIA did not stamp all supporting documents "PAID" when payment was made. In our review of 30 disbursements, 7 did not have all supporting documents stamped "PAID". The Accounting Manual items related to each payment type require that supporting documents be stamped "PAID". Stamping supporting documents "PAID" helps prevent duplicate payments.

WE RECOMMEND that Calhoun County FIA stamp supporting documents "PAID" when payment is made.

Cash Receipts

No findings in this area.

General Ledger

Bank Reconciliation

2. Our review disclosed that the person who performed the bank reconciliation also had access to the blank check inventory. Accounting Manual Item 405 states that

for internal control purposes the person responsible for reconciling the disbursing account should not have access to blank check inventory.

WE RECOMMEND that Calhoun County FIA have an employee independent of the cash disbursement process perform the bank reconciliation.

Approval of Journal Vouchers

3. Calhoun County FIA did not have supervisory approval signatures on 5 of 6 journal vouchers we reviewed in the month of November 2002. Accounting Manual Item 450 states that the preparer's supervisor, or another person designated by the local office director, must approve all journal vouchers. Requiring approval helps reduce the risk of unauthorized transactions being processed.

WE RECOMMEND that Calhoun County FIA have the preparer's supervisor or another person designated by the director, approve all journal vouchers.

Modified Accrual Basis Balance Sheet

County Equity Balance

4. Calhoun County FIA was preparing the Modified Accrual Basis Balance Sheet, but did not investigate differences in the county equity per the balance sheet versus the amount shown on the Change in County Equity Statement. Accounting Manual Item 403.2 states that the Change in County Equity Statement provides a verification and reconciliation of the County Equity amount on the Balance Sheet. Differences should be reconciled to provide an accurate presentation of the local office's financial position.

WE RECOMMEND that Calhoun County FIA investigate and correct the discrepancy in the amount of county equity.

State Emergency Relief

FIA-93 Reconciliation

5. Calhoun County FIA did not reconcile FIA-93's (Examination Authorization/Invoice for Services) to the ES-440 report. Accounting Manual Item 404 states that each FIA-93 should be reconciled to the ES-440 report. Reconciliation of the ES-440 Report helps to ensure that all payments from the FIA-93's were accurate and appropriate.

WE RECOMMEND that Calhoun County FIA reconcile the ES-440 Report to the FIA-93's each month.

Safe and Controlled Documents

No findings in this area.

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

MA-010 Reconciliation

6. Calhoun County FIA did not reconcile flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. Reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information System.

WE RECOMMEND that Calhoun County FIA reconcile the flagged transactions on the MA-010 to the input documents.

Security Officers Log Report (PD-180)

7. Calhoun County FIA did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to signed Security Agreements to ensure that all changes are accurate and approved by supervisors.

WE RECOMMEND that Calhoun County FIA reconcile the PD-180 report to revised Security Agreements.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

Payroll Record Retention

8. The Calhoun County FIA timekeeper maintained the certified copy of the Time and Attendance Summary Report (HR-332A). The Primary Internal Criteria for Local/District Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND that Calhoun County FIA have the certifier or someone other than the timekeeper retain the HR-332A.

Procurement Card

No findings in this area.

ALBION OFFICE

Cash Receipts

Mail Opening

9. The Albion office had only one person opening the mail. Accounting Manual Item 430 requires that two people work together to open the mail. Having two people open the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that the Albion office have two people work together to open the mail.

Safe and Controlled Documents

No findings in this area.

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

CIMS Security Agreements

10. The Albion office did not have current Client Information Management Systems (CIMS) Security Agreements (FIA-3974A) on file for some staff that access CIMS. CMIS Security Policy L-Letter L-97-063 requires an FIA-3974A to be prepared for users of CIMS. In addition, the Albion office did not reconcile the Securities Officers Log Report (PD-180) to the Security Agreements as required by L-Letter L-97-063.

WE RECOMMEND that the Albion office obtain signed CIMS Security Agreements for all users and reconcile them to Securities Officers Log Report.

IRS Information Security

No findings in this area.